POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T43-11-12, 13 a-g, 14-17, 18 a-b)

The United States Postal Service hereby provides the responses of witness

Schenk to the following interrogatories of Major Mailers Association: MMA/USPS-T43-

11-12, 13 a-g, 14-17, 18 a-b, filed on November 16, 2001. The following interrogatories

were redirected: Interrogatory 13 h and 19 were redirected to witness Miller and

Interrogatory 18 c was redirected to witness Meehan. The following interrogatories

require the retrieval and evaluation of archived data, a process still not completed:

11(C)(2), 11(D)(2-5), 12(C), 15(E), and 16. The Postal Service will file supplemental

responses to these interrogatories as soon as possible.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3089 Fax -5402
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-11   Please refer Library Reference USPS-LR-J-117, specifically
worksheet "letters 93".

A. Please confirm that the number of letters delivered to a post office box is not a
   significant cost driver for delivery costs.   If no, please explain the impact that a
   letter delivered to a post office box has on delivery costs?

B. Please confirm that the titles in columns 6 and 7 should refer to $FY00 and
   $FY03, respectively? If no, please explain.

C. Please consider your computed $FY93, $FY00 and $FY 03 First-Class unit
   delivery costs as shown on line 8 in columns 5, 6 and 7.

   1. Please confirm that your computation of the $FY 93 unit delivery cost of 2.13
      cents is the total cost shown in column 3 divided by the total volume shown in
      column 4. If no, please explain how to compute that figure.

   2. For the 50,443,703 letters used to compute the $FY93 unit cost, please
      confirm that you do not know what portion of the total was delivered by either
      rural or city delivery carriers, or what portion was delivered to post office
      boxes. If no, please provide those percentages.

   3. For the $FY00 and FY03 unit costs, please confirm that you inherently
      assume that the portion of letters delivered to post office boxes is the same
      as for $FY93. If no, please provide the percentage of letters delivered to post
      office boxes for each of the three unit costs.

   4. If you assume that the portion of letters delivered to post office boxes was the
      same for each of the three unit costs, please justify this assumption.

D. In $FY93, you show that the unit delivery nonDPS costs for single piece and
   presorted letters are 2.13 and 2.21 cents, respectively.

   1. According to those computed unit costs, are the nonDPS delivery costs for
      presorted letters really approximately .08 cents less than single piece
      presorted letters? Please explain your answer.

   2. Assume for purposes of this question that 33% of presorted letters were
      delivered to a post office box and that 13% of the single piece letters were
      delivered to a post office box. Assume also that the delivery cost for letters
      delivered to a post office box and collection costs were very close to zero.
      Under these circumstances, is it appropriate to compare nonDPS delivery
      costs as shown in the table below? If not, please explain why not?

Computation of $FY93 nonDPS Delivery Costs Per Delivered Letter

First-Class Category	(1) Total Delivery Cost ($000)	(2) Total Volume (000)	(3) % Delivered by Carriers	(4) Total Volume Delivered (000)	(5) Unit Cost per Delivered Letter ($)
Single Piece	1,076,586	50,443,703	87%	43,886,022	0.0245
Presorted	652,975	29,486,424	67%	19,755,904	0.0331

Source:
USPS-LR-J-117   Col 3   Col 4   Assumption   (2) x (3)   (1) / (4)
"letters 3"

3. Assume that 13% of presorted letters were delivered to a post office box and that 33% of the single piece letters were delivered to a post office box. Assume also, for purposes of this question that the delivery cost for letters delivered to a post office box and collection costs were very close to zero. Under this circumstance, do you think it is appropriate to compare nonDPS delivery costs as shown in the table below? If not, why not?

Computation of $FY93 nonDPS Delivery Costs Per Delivered Letter

First-Class Category	(1) Total Delivery Cost ($000)	(2) Total Volume (000)	(3) % Delivered by Carriers	(4) Total Volume Delivered (000)	(5) Unit Cost per Delivered Letter
Single Piece	1,076,586	50,443,703	67%	33,797,281	0.0319
Presorted	652,975	29,486,424	87%	25,653,189	0.0255

Source:
USPS-LR-J-117   Col 3   Col 4   Assumption   (2) x (3)   (1) / (4)
"letters 3"

4. Please explain whether one can tell which incurs more nonDPS delivery cost for FY93, single piece or presorted, unless you know how many pieces are actually delivered by rural and city carriers?

5. Assume that during FY 93, 33% of presorted letters were delivered to a post office box and that 13% of the single piece letters were delivered to a post

office box, similar to the situation asked in Part 2. Assume further that for FY00, 13 % of presorted letters were delivered to a post office box and that 33% of single piece letters were delivered to a post office box. Assume also, for purposes of this question that the delivery cost for letters delivered to a post office box and collections costs were very close to zero. Under this circumstance, would not the $FY00 unit nonDPS delivery cost for all destinating letters be more appropriately computed as shown in the table below than the way you computed it in column 5 of worksheet "letters 93"? Please explain your answer.

Computation of $FY00 nonDPS Delivery Costs Per Originating Letter

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First-Class Category	FY93 Total Volume (000)	FY93 Unit Cost per Delivered Letter	FY93 Labor Rate	FY00 Labor Rate	ratioed unit cost $FY00	FY00 % Delivered by Carriers	FY00 Total Volume Delivered (000)	FY00 Total Delivery Cost ($000)	FY00 Unit Cost for all letters
Single Piece	50,443,703	0.0245	23.1880	27.7445	0.0294	67%	33,797,281	992,014	0.0197
Presorted	29,486,424	0.0331	23.1880	27.7445	0.0395	87%	25,653,189	1,014,505	0.0344

Source:		Part D(2)			(2) x (4) / (3)	Assumption	(1) x (6)	(5) x (7)	(8) / (1)
USPS-LR-J-117	Col 4		Fn 8	Fn 9					
"letters 3"									

6. Please explain the differences between the $FY00 unit nonDPS delivery costs computed in Part 5 and your derived unit delivery costs of 2.55 cents and 2.65 cents for single piece and presorted letters, respectively.

RESPONSE:

A. Confirmed that a letter delivered to a post office box would normally avoid carrier delivery activities, as discussed in my response to MMA/USPS-T43-4.

B. Confirmed.

C. 1. Partly confirmed. $FY93 unit cost equals the total costs shown in column 3 divided by the total volume shown in column 4 multiplied by 1000.

2. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

3. Not confirmed. Since the referenced costs are, specifically, city carrier costs, the LR-J-117 non-DPS cost calculations assume that the percentage of letters delivered on city delivery routes remains constant. It does not require a specific assumption about the percentage delivered to post office boxes.

4. Not applicable.

D.

1. I assume that by "really" you mean whether 0.08 cents is the actual difference in FY 1993 unit costs in cost segment 6.1 (city carrier in-office) for single-piece and presorted First-Class letters. The 0.08 cent measured cost difference is a statistical estimate and subject to sampling variation. However, it is the estimated FY 1993 unit difference.

2. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

3.   The data needed to answer this question is archived and is in the process of

being retrieved and evaluated. The information will be provided as soon as it

becomes available.

4.   The data needed to answer this question is archived and is in the process of

being retrieved and evaluated. The information will be provided as soon as it

becomes available.

5.   The data needed to answer this question is archived and is in the process of

being retrieved and evaluated. The information will be provided as soon as it

becomes available.

6.   The costs computed in part D5 of the interrogatory depend on the

hypothetical given there. The costs computed in the $FY00 column of the

'letters 93' tab of LR-J-117.xls do not depend on the hypothetical in part D5.

Specifically, the hypothetical in part D5 of the interrogatory presupposes a

large shift in delivery mix that is not assumed in my calculations. Please see

also the response to part D5, above.

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MMA/USPS-T43-12   Please refer to your response to Part J of Interrogatory
MMA/USPS-T43-1, where you confirmed that you believe you have isolated the
impact of presortation on delivery costs, and Part B of your response to Interrogatory
MMA/USPS-T43-9.

A. Please confirm that in deriving all of your unit costs for the various levels of
    worksharing, you implicitly assumed that 13% of the pieces are addressed and
    delivered to post office boxes. If you cannot confirm, please explain.

B. Please confirm that the 2.65-cent unit cost derived for nonDPSed presorted
    letters, as derived on worksheet "letters 93", is used to derived the DPS unit cost
    of .5 cents shown on worksheet "summary BY", as shown in column A, lines 32-
    34. If you cannot confirm, please explain.

C. Please confirm that for the derivation of the 2.65-cent non-DPS unit cost for
    presorted letters, you have no information as to what percentage of pieces were
    implicit as being addressed and delivered to post office boxes. If you cannot
    confirm, please provide the percent of letters implicitly delivered to post office
    boxes that is implicit in that derived 2.65 unit cost.

RESPONSE:

A. Not confirmed. I assume that the interrogatory refers to the calculation of costs

    for detailed rate categories within presorted First-Class letters. My calculations

    assume that the rate category within presorted First-Class letters (degree of

    presort and/or automation compatibility) does not affect carrier costs per RPW

    piece, other than the effect on DPS.

B. Confirmed, with the correction that the DPS unit cost calculation is shown in

    column A, lines 32-33 in the 'summary BY' worksheet. See also the response to

    MMA/USPS-T43-15, part C.

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C. The data needed to answer this question is archived and is in the process of

being retrieved and evaluated. The information will be provided as soon as it

becomes available.

MMA/USPS-T43-13   Please refer to your response to Part N of Interrogatory
MMA/USPS-T43-1. There you compute unit delivery costs separately for First-Class
metered, stamped, and other letters.

A. Please show exactly how you computed each of those unit costs.

B. Please explain why metered letters cost 5.92 cents to deliver while BMM letters
cost only 4.066 cents, almost 2 cents less.

C. Please confirm that metered letters (5.92 cents) cost virtually the same to deliver
as single piece letters (6.04 cents). If no, please explain.

D. Do single piece letters and metered mail letters have a similar DPS percentage?
Doesn't your answer indicate that? Please support your answer.

E. Are the percentages of single piece letters and metered mail letters delivered to a
post office box similar? Please support your answer.

F. Do metered mail letters and BMM letters have a similar DPS percentage?
Please support your answer.

G. Are the percentages of metered mail letters and BMM letters delivered to a post
office box similar? Please support your answer.

H. Doesn't USPS witness Miller's assumption that non-automation machinable
mixed AADC letters can be used as a proxy for BMM letters implicitly assume
that non-automation machinable mixed AADC letters and BMM letters have a
similar DPS percentage and a similar percentage of pieces delivered to a post
office box. If no, please explain.

RESPONSE:

A. The referenced calculations are found in the response to MMA/USPS-T43-1,

subpart O. I computed base year First-Class city carrier in-office costs by shape

and indicia using the CARMM methodology. These base year costs by shape

and indicia were used to distribute total TY CRA First-Class city carrier in-office

costs by shape and indicia. City carrier street and rural carrier costs were then

computed under the assumption that the unit cost for a given subclass and shape

is not affected by the type of indicia. The calculations are provided in workbook

MMAT43-1o.xls, which is provided in USPS-LR-J-191.

B. See the response to part A above for the development of the unit carrier cost of

5.92 cents for all metered single piece First-Class letters. Witness Miller, in

USPS-T-22, assumes that the unit carrier costs for machinable nonautomation

Mixed AADC First-Class presort letters can be used as a proxy for the unit carrier

costs of BMM letters, which are a subset of all metered First-Class letters. The

costs associated with BMM are not necessarily equivalent to those for all

metered letters, as discussed in the response to MMA-T43-1o.

C. Confirmed.

D. I am not aware of any data on the DPS percentage for single piece letters, by

indicia or otherwise. Whether or not the DPS percentage is the same for stamped

and metered First-Class single-piece letters depends on the unknown DPS and

non-DPS costs for each group; see the response to MMA/USPS-T43-15, part C.

E. I am not aware of any data upon which to base a response. My understanding is

that the CCS and RCS data do not allow the identification of city delivery and

rural delivery volumes by indicia.

F. See the response to part D.

G. See the response to part E.

H. Redirected to witness Miller.

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MMA/USPS-T43-14 Please refer to your response to Part U of Interrogatory MMA/USPS-T43-1. There you compute the unit delivery cost for presorted letters that you claim is overstated because it includes collection costs associated with pieces delivered to post office boxes. Please explain what collection costs are incurred by presorted letters that are associated with letters delivered to a post office box.

RESPONSE:

I assume you are referring to Part V of interrogatory MMA/USPS-T43-1, not Part U

as stated. The portion of the response to Part V that states "which is an

overestimate of the unit carrier costs for these pieces delivered by carriers, since

collection costs associated with pieces delivered to P.O. Boxes are included in total

unit costs" is a misstatement that resulted from neglecting to delete this phrase when

the response to Part U was copied to Part V.

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MMA/USPS-T43-15 Please refer to your response Interrogatory MMA/USPS-T43-2. There may have been some confusion with the original question because you did not explain your methodology for deriving sub-segment 6.1 costs for each category within presorted letters.

A. For single piece letters, please confirm that you were provided the total sub-segment 6.1 costs by shape from another witness. If you cannot confirm, please explain. If you confirm, please identify the witness.

B. For presorted letters, please confirm that you were provided the total sub-segment 6.1 costs by shape from another witness. If you cannot confirm, please explain. If you confirm, please identify the witness

C. For each category within presorted letters, please confirm that you used the following steps to derive the sub-segment 6.1 costs. If no, please explain.

  1. You obtained the nonDPSed presorted unit cost from FY93 and ratioed that cost to up to FY00.

  2. You obtained the weighted average DPS percent for all presorted letters by obtaining DPS percentages and volumes for each rate category from USPS witness Miller.

  3. You computed the average presorted DPS unit cost by solving the following equation:

Average DPS Cost = % nonDPS x nonDPS unit cost + % DPS x DPS unit cost

  4. You computed the average 6.1 sub-segment unit cost for each category by using the following equation:

Unit Cost = % DPS x Average DPS Cost + % nonDPS x nonDPS unit cost

  5. You computed the total 6.1 sub-segment cost for each category by multiplying the unit cost computed in step 4 by the appropriate volume for each category.

D. Please confirm that in step 1 of Part C, the nonDPSed presorted unit cost is not the nonDPS cost per letter processed and delivered by carriers, but is the nonDPS cost per letter delivered, including letters delivered to a post office box. If no, please explain.

E. Please confirm that in your derivation of the presorted nonDPS unit cost referred to in step 1 of Part C, you do not know the volume of actual letters that were processed and delivered by carriers using the nonDPS methods.

RESPONSE:

MMA/USPS-T43-2 asked for the methodology used to derive costs for "single piece letters" (part A) and "presorted letters" (part B). Accordingly, my response to MMA/USPS-T43-2 explained how costs by subclass and shape were developed.

A. Not confirmed. I was not provided the total sub-segment 6.1 costs by shape by another witness. I was provided the cost segment 6.1 volume-variable costs by subclass by witness Meehan (see her B workpapers, USPS-LR-J-57). I then used FORTRAN programs (which are provided in USPS-LR-J-117) that replicate the Postal Service's CARMM methodology to disaggregate cost segment 6.1 volume-variable costs by subclass to shape.

B. See response to Part A.

C. Confirmed with the following exceptions: I solve the equation in step 3 for the DPS unit cost to obtain the formula in LR-J-117.xls:

DPS unit cost = (Total unit cost - % nonDPS x nonDPS unit cost) / % DPS.

D. Confirmed. This is consistent with the de-averaging procedure described in

response to part C.

E. The data needed to answer this question is archived and is in the process of

being retrieved and evaluated. The information will be provided as soon as it

becomes available.

MMA/USPS-T43-16   Please refer to your response to Part E of Interrogatory
MMA/USPS-T43-3. Is it your testimony that the volume of letters delivered to a post
office box has no impact on your derivation of nonDPS costs? If no, please explain
your position. If yes, please explain how you can properly estimate the nonDPS unit
cost if you do not know how many pieces were processed and delivered by carriers
using nonDPS methods, as computed on worksheet "letters 93" of Library Reference
USPS-LR-J-117?

RESPONSE:

The data needed to answer this question is archived and is in the process of being

retrieved and evaluated. The information will be provided as soon as it becomes

available.

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MMA/USPS-T43-17   Please refer to your response to Part D of Interrogatory
MMA/USPS-T43-5 where you indicate that your analysis does not, in general,
assume that the delivery characteristics are identical for each of the presorted
categories.

A. Are the delivery characteristics not identical because you use different,
   independently derived, DPS percentages for each category? If no, please
   explain.

B. Don't you assume that 13% of the letters from each category will be delivered to
   post office boxes? If no, please explain.

C. If your answer to Part B is yes, what is your basis for assuming that the 13% of
   total presorted letters that are delivered to post office boxes can be broken down
   proportionally to each of the 14 separate rate categories, particularly when the
   volumes for most of those categories are quite small compared to Automation 3-
   digit and 5-digit? Please explain why this assumption is appropriate for each of
   the 8 subcategories you list for non-automation letters.

RESPONSE:

A. Yes.

B. Please see the response to MMA/USPS-T43-5, part C.

C. This is a simplifying assumption used in USPS-LR-J-117, based on data

   availability. In other words, I am not aware of any data to support a

   disproportionate distribution of costs to some rate categories. The percentage of

   letters delivered to post office boxes would have to differ appreciably by rate

   category to materially affect the deaveraged unit cost estimates provided. I do

   not believe that the relative volumes by rate category are, by themselves,

   relevant.

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MMA/USPS-T43-18   Please refer to your response to Interrogatory MMA/USPS-

T43-6.

A. Please provide the derivation of the 9.57 cents that you indicate is the First-Class
single piece city carrier delivery unit cost, excluding collection costs.

B. Please provide the derivation of the 3.71 cents that you indicate is the First-Class
single piece city carrier delivery unit cost, excluding collection costs.

C. Please provide the total collection costs incurred by the Postal Service for BY00.

RESPONSE:

A. The First-Class single piece city carrier delivery unit cost is calculated using the

following inputs, which are found in LR-J-117.xls in USPS LR-J-117 unless

otherwise noted:

    (a) City Carrier In-Office Costs (6.1 + 6.2) – the sum of cells D3 and E3 in the

        worksheet 'Summary BY'

    (b) % Delivery Costs for City Carrier In-Office – see Table 1 in Attachment A

    (c) Cost Segment 7 Costs – the sum of cells F3 through I3 in the worksheet

        'Summary BY'

    (d) % Delivery Costs for Cost Segment 7 – calculated by taking the

        percentage of collection costs and subtracting it from one. The

        percentage of collection costs is calculated using CS06&7.xls found in

        witness Meehan's B workpapers (USPS LR-J-57). It is calculated by

taking the sum of collection costs (cells C12, D12, M12, P12, S12, and

T12 in worksheet '7.0.3') and divided them by the total Cost Segment 7

costs for First-Class single piece (cells E11, F11, and G11 in worksheet

'Output to CRA').

(e) BY00 Piggyback Factor for C/S 6.1 First-Class Single Piece – cell K114 in

worksheet 'Summary BY'

(f) BY00 City Carrier Delivery Volumes – cell G3 in the worksheet 'Delivery

Volumes'

The following formula uses these inputs to calculate the unit cost:

Unit cost = {[(a)*(b)+((c)*(d))]*(e)} / (f) * 100

9.57 = {[(1,121,119*0.9975)+(490,750*0.7970)]*1.351}/21,308,674*100

B.   The First-Class single piece rural carrier delivery unit cost is calculated using

the following inputs, which are found in LR-J-117.xls in USPS LR-J-117:

(a) BY00 Rural Carrier Costs (C/S 10) – cell J3 in worksheet 'Summary BY'

(b) BY00 Piggyback Factor for C/S 10 First-Class Single Piece – cell L114 in

worksheet 'Summary BY'

(c) Delivery Unit Cost Key – calculated by taking the ratio of the letters

collection costs to total rural carrier costs (cell O32 in worksheet 'Rural

Crosswalk' divided by cell R32 in the same worksheet). This ratio is then subtracted from the letters cost distribution key (cell C44 in 'Rural Crosswalk') and then divided by the same number yielding the delivery unit cost key

(d) Rural Carrier Delivery Volumes – sum of cells C18 through F18 and M18 in worksheet 'Rural Crosswalk'

The following formula uses these inputs to calculate the unit cost:

Unit Cost = [(a) * (b) * (c)] / (d) * 100

3.71 = [258,211 * 1.236 * 0.8530] / 7,344,088 * 100

C.   Redirected to witness Meehan.

MMA/USPS-T43-19 Please refer to your response to Part H of Interrogatory
MMA/USPS-T43-8.

A. Please confirm that BMM letters have no prerequisite requirements or regulations
that require them to be machinable, yet the Postal Service estimates that DPS
percentage for BMM letters is virtually the same as non-automation machinable
letters, automation mixed AADC, automation AADC, and automation 3-Digit
letters. If you cannot confirm, please explain.

B. Please confirm that BMM letters have no prerequisite requirements or regulations
that require the addresses to be complete, reliable, machine readable and up-to-
date, yet the Postal Service estimates that the delivery cost for BMM letters is
virtually the same as automation mixed AADC, automation AADC, and
automation 3-Digit letters. If you cannot confirm, please explain.

C. Please explain if, and to what extent, BMM letters and metered letters have
different delivery characteristics in terms of (1) DPS percentage and (2) percent
of letters delivered to a post office box. Please support you answer.

RESPONSE:

Redirected to witness Miller.

DECLARATION

I, Leslie M. Schenk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.
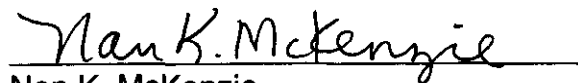
Leslie M. Schenk

Dated: 12/06/01

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie
Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
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